

COMMUNITY SERVICE TELEPHONE COMPANY
Proposed Tariff Revision for Increase in Rates,
Docket No. 2001-249

STIPULATION

Community Service Telephone Company ("CST" or "Telephone Company"), the Office of the Public Advocate and Intervenor Tenley Kent (collectively "the Parties"), hereby agree and stipulate as follows:

I. PURPOSE

The purpose of this Stipulation is to settle all issues in Docket No. 2001-249, to avoid a hearing on those issues resolved herein and to expedite the Commission's consideration and resolution of the proceedings. The provisions agreed to herein have been reached as a result of discussions among the parties and the Commission's Advisory Staff in this case.

II. BACKGROUND

On May 27, 1997, the Maine Legislature enacted 35-A M.R.S.A. § 7101-B, which required the Commission to establish intrastate access rates for local exchange carriers based on their interstate access rates by May 30, 1999, and every two years thereafter. The Commission subsequently adopted Section 8(J) of Chapter 280 of its Rules, which set forth the method by which Section 7101-B would be implemented. As a preliminary step towards achieving this goal, Section 8(J) required all independent telephone companies ("ITCs"), including CST, to reduce their intrastate access rates by 40% of the difference between their existing rates and the level of the interstate access rates by May 30, 1998.

On February 10, 1998, CST filed its initial schedule of intrastate access rates (Docket No. 98-119). On June 3, 1998, the Commission approved CST's initial schedule of intrastate access rates, which were already at or below the level of interstate access rates, as determined on the basis of the NECA-pool disbursements. After the initial rate reductions for the ITCs were concluded, the Commission Staff and the Telephone Association of Maine ("TAM") began informal discussions to attempt to resolve issues regarding the access rate reductions planned for May 30, 1999. In October, 1998, ITCs provided the Staff with earnings analyses of the impact of the further reductions. The information was provided in an informal manner to facilitate discussions and negotiations between the Staff and the ITCs.

On November 24, 1998, the Commission opened formal investigations into the rates of each of the ITCs, including CST. The purpose of the investigation, as set forth by the Commission, was as follows:

As required by statute, Community Service Telephone Company's intrastate access rates must be reduced to the interstate level or lower no later than May 30, 1999. This investigation will consider the potential financial impact upon the Company from this change, and may examine other factors, such as changes to basic local exchange rates or the need for a state universal service fund, that may be needed to offset all or a part of the revenue effect of access rate reductions. Any adjustment to revenues will be based on an assessment of amounts needed to allow the Company an opportunity to earn a fair rate of return.

Investigation Into Rates of Community Service Telephone Company Pursuant to 35-A M.R.S.A. § 7101-B, Docket No. 98-893, Notice of Investigation (November 24, 1998), at 2. The Office of the Public Advocate ("OPA"), Bell Atlantic and TAM subsequently petitioned to intervene in Docket No. 98-893 on December 2, 1998, December 3, 1998, and December 22, 1998, respectively. The Commission granted all three petitions to intervene. On December 22, 1998, a Case Conference was held in all of the cases of all ITCs. Also on December 22, 1998, TAM filed a Motion for a Protective Order in the Access Cases. The Protective Order was issued by the Hearing Examiner on January 11, 1999.

On January 28, 1999, the Commission issued its Interim Order in the Access Cases which found that Section 7101-B requires the Commission to set access rates for ITCs to achieve intrastate access rates at NECA Pool Disbursement levels by May 30, 1999, and which stated its goal to further reduce intrastate access rates to NECA Tariff levels over the two years following May 30, 1999. The Interim Order also stated that:

We expect that the ITCs will continue to participate fully in the discovery conferences conducted by Staff. We are hopeful that after further discussions, the ITCs and the other parties will propose stipulated transition plans for our review.

On January 21, 1999, the Staff conducted a Technical Conference in Docket No. 98-893 to discuss information regarding CST. On April 20, 1999, CST filed a revised schedule of intrastate access rates which was designed to reduce CST's intrastate access rates to the level of the interstate access rates based on the NECA pool disbursements, with the proposed effective date of May 30, 1999 (Docket No. 99-265). CST met with the Staff, OPA and TAM to assess this matter, including potential actions to offset the impact of the reduction in access rates, on April 27, 1999. In response to a Staff request, CST filed backup data to support its April 20 filing on May 3, 1999. The Commission allowed these revised intrastate access rates (Docket No. 99-265) to go into effect on May 30, 1999.

On October 1, 1999, CST provided the Staff and the Public Advocate with an analysis of the impact of access rate reductions. On October 7, 1999, CST met with the Staff and the Public Advocate to discuss the information regarding the access rate reductions. On October 16, 1999, CST again met with the Staff to discuss the information and to explore possible resolution of the issues in this case. On January 13, 2000, a conference call was held among the parties to further discuss this case. CST again met with the Staff and OPA on April 6, 2000, resulting in an oral agreement. The oral agreement was similar to agreements which had been reached in the access rate proceedings for Unitel, Inc. and Mid-Maine Telecom. These agreements included the

recognition of certain goals, the commencement of rate proceedings by August 30, 2000, and the reduction of revenue requirement in these cases by certain so-called “Amortization Amounts.” In the case of CST, the Amortization Amount provision was accompanied by an agreement to increase accumulated depreciation.

CST filed its Chapter 120 Filing, including adjustments for the Amortization Amount and to Accumulated Depreciation, on September 8, 2000. By Procedural Order issued on March 14, 2001 jointly in this proceeding and in the rate proceeding initiated upon the filing of the Chapter 120 Filing (Docket No. 2000-806), CST was directed to choose between continued litigation in Docket No. 2000-806 on the basis of its original filing or to file a new rate case. On March 16, 2001, CST notified the Commission that it chose the latter option. The Procedural Order of March 14, 2001, also directed CST to submit a written Stipulation in Docket No. 1998-893. A Stipulation was filed with the Commission on April 26, 2001. Pursuant to its exercise of the second option, CST filed proposed revised intrastate access rates and filed a general rate proceeding on April 6, 2001. These matters were assigned Docket Nos. 2001-251 and 2001-249, respectively. On May 9, 2001, after holding deliberations on April 30, 2001, the Commission issued an Order which provided as follows: (1) that the Commission rejected the Stipulation filed on April 26, 2001 in Docket No. 1998-893; (2) that the Commission terminated the proceedings in Docket No. 2000-806; and (3) contained a Proposed Order rejecting the access rates filed on April 6, 2001 in Docket No. 2001-251 and ordering that the Company implement access rates at the NECA Tariff No. 5 level. A case conference was held among the Commissioners, the Staff and the parties on May 9, 2001. On May 11, 2001, CST filed comments opposing the Proposed Order in Docket No. 2001-251 and seeking reconsideration of the Orders in Docket Nos. 1998-893 and 2000-806. At deliberations on May 14, 2001, the Commission indicated its willingness to consider a resolution of the issues which was reflected in a Stipulation which was then filed on May 24, 2001 (the “May 24 Stipulation”).

The May 24 Stipulation included the following:¹ The parties recognized the Commission's goal to establish intrastate access rates at the NECA Tariff No. 5 level by May 30, 2001, and that an ITC was not precluded from making a showing that its particular circumstances warrant a deviation from the stated goal. On May 30, 2001, CST would place into effect the reduced intrastate access rate tariffs which were filed with the Commission on April 6, 2001. In establishing the rates to be implemented in Docket No. 2001-249, CST's annual revenue requirement would be reduced by an Amortization Amount of \$950,000 to be amortized over an Amortization Period of five years, unless the parties agreed otherwise, with the Amortization Amount and the Amortization Period being subject to adjustment pursuant to Part III(8) of the May 24 Stipulation. Part III(8) provided that at the conclusion of the rate case in Docket No. 2001-249, the Amortization Amount would be adjusted by the amount by which CST's revenues during the period from May 30, 2001 through the effective date of the new rates differed from CST's revenue requirement during that Interim Period. The resulting Amortization Amount would be subject to a \$250,000 annual cap. CST agreed to add an additional \$250,000 to accumulated depreciation in the rate proceeding in Docket No. 2001-249. CST agreed to conduct a survey of its customers in its Litchfield and Monmouth exchanges to ascertain their level of interest in certain optional calling plans, and to present the results to the Commission Staff and the Office of the Public Advocate no later than October 1, 2001.² CST would implement the addition of Lewiston to the Premium Calling Areas of its Litchfield and Monmouth exchanges as soon as practicable after the Commission has approved the May 24 Stipulation.³

The Commission voted to approve the May 24 Stipulation at deliberations on May 24, 2001. On September 4, 2001, the Commission issued its written Order Approving the May 24, Stipulation.

¹ This is a summarization of the substantive provisions of the May 24 Stipulation. The actual provisions and agreements therein are as stated in the May 24 Stipulation.

² Pursuant to discussions with the Staff, a reasonable delay beyond October 1, 2001, was deemed acceptable in order to complete the survey. It is expected that the results of the survey will be reported to the Staff and the Office of the Public Advocate before October 30, 2001.

Pursuant to the schedule approved by the Hearing Examiner, CST and the Public Advocate submitted pre-filed direct cases, engaged in written discovery, participated in a Technical Conference on July 10, 2001, submitted rebuttal and surrebuttal cases, and engaged in further discovery. Settlement negotiations were held among representatives of CST, the Office of the Public Advocate, and Intervenor Tenley Kent during September-October 2001. The settlement negotiations resulted in the agreements and compromises contained in this Stipulation.

III. STIPULATION PROVISIONS

The parties to this Stipulation agree and recommend that the Commission order as follows:

- A. Intrastate Revenue Reduction. An intrastate annual revenue reduction of \$810,000 shall be implemented by CST in accordance with the provisions of this Stipulation. The \$810,000 annual revenue reduction includes an annual amount of revenue reduction of \$190,000 (the Initial Amortization Amount of \$950,000 divided by five) pursuant to Part III(5-7) of the May 24 Stipulation, and an additional annual revenue reduction of \$60,000, pursuant to Part III(8) of the May 24 Stipulation. Within 90 days after the Commission's approval of the current Stipulation, CST will provide a calculation of the difference between CST's revenues and CST's revenue requirement during the Interim Period, pursuant to Part III(8).
- B. Rate Design: Intrastate Access Rate Reduction. CST will establish new intrastate switched access rates that will (a) decrease its annual intrastate access revenues by the following annual dollar amount: \$765,805, and (b) reflect the structure of the NECA Tariff No. 5 interstate switched access rates. An original of the proposed rate schedules, bearing the proposed effective date of November 1, 2001, is attached to the original of this Stipulation. If these schedules are approved by November 30, 2001, they will be placed into

³ Also pursuant to the discussions with the Staff, it was decided that CST should temporarily refrain from

effect for intrastate access service rendered on and after November 1, 2001. If the schedules are approved after November 30, 2001, the schedules will be placed into effect at the beginning of the next available access rate billing cycle.

- C. Rate Design: Mount Vernon Exchange Calling Plan. In order to make the local service rates more equivalent among CST's exchanges, CST will modify the Premium and Economy Calling Plans for the Mount Vernon exchange as described below (the "Mount Vernon Exchange Calling Plan"). The parties estimate that these modifications will cause incremental costs and revenue losses to CST of \$49,484 annually. However, because the incurrence of the costs and revenue losses associated with the Mount Vernon Plan will not begin until about 60 days after the implementation of the access rate reduction, the parties agreed to adjust the revenue loss downward by \$5,289 and increase the access revenue reduction in Part III(B) by \$5,289, with the net effect being a \$810,000 revenue reduction ($\$765,805 + (\$49,484 - \$5,289)$). Within 30 days after the Commission's approval of this Stipulation, CST will file revised rate schedules which modify the Premium Calling Area Plan for the Mount Vernon exchange so as to add (one-way) toll free calling to the Belgrade, Livermore Falls and Readfield exchanges. The Economy Area Calling Plan for the Mount Vernon exchange shall be modified so as to reduce the rate per call to non-home exchanges in the Premium Calling Area from \$.50 per call to \$.40 per call. The revised rate schedules shall bear a proposed effective date which is the first day of the first full billing cycle which occurs 60 or more days after the date of the Commission's Order approving this Stipulation. In the event that additional calling area plans or BSCA routes are subsequently added to the Mount Vernon exchange, (1) in determining the lost revenues or costs associated with any additional calling area plan or BSCA route, CST will not include the lost revenues and costs associated with the Mount Vernon Calling Plan as implemented pursuant to this Stipulation, and (2) in determining the allocation of the lost revenues and costs of any

implementing this BSCA route until the results of the survey were reviewed.

additional calling area plan or BSCA route among the customers of the exchanges served by CST, the parties will consider the objective of rate equivalency among Mount Vernon and the other CST exchanges.

- D. Additional Rate Design Changes. The parties are not in agreement with regard to any further reduction in intrastate switched access rates of CST or other rate design changes at this time. This Stipulation is not intended to preclude the Commission from conducting further investigation in another docket of the rate design of CST's rates for basic local service and intrastate switched access service in order to determine whether further changes should be made on a revenue neutral basis.
- E. Termination of EAS Settlement Revenues. The parties agree that CST may increase its rates to offset any EAS settlement revenues which are lost if Verizon terminates payments to CST for currently existing EAS settlements.
- F. Staff Presentation of Stipulation. The Parties to the Stipulation hereby waive any rights that they have under 5 M.R.S.A. § 9055 and related Commission Rules to the extent necessary to permit the Advisory Staff to discuss this Stipulation and the resolution of this case with the Commission at public deliberations, without the participation of any party, except in the case where a Party to this proceeding is opposing this Stipulation.
- G. Record. The record on which the Commission may base its determination whether to accept and approve this Stipulation shall consist of this Stipulation, CST's and the Public Advocate's Direct, Rebuttal and Surrebuttal Cases in Docket No. 2001-249, the transcript of the Technical Conference on July 10, 2001, and all documents provided in responses to data requests and information requests of the OPA and Advisory Staff.
- H. Non-Precedential Effect. Except where it may be expressly noted herein, the Stipulation shall not be considered legal precedent, nor shall it preclude a party from raising any issues in any future proceeding or investigation on similar matters subsequent to this proceeding.

- I. Stipulation as Integral Document. This Stipulation represents the full agreement between all parties to the Stipulation and rejection of any part of this Stipulation constitutes a rejection of the whole.

COMMUNITY SERVICE TELEPHONE
COMPANY

By: _____
Its: _____ Date _____

OFFICE OF THE PUBLIC ADVOCATE

By: _____
Its: _____ Date _____

INTERVENOR – TENLEY KENT

Tenley Kent Date _____